

Testimony of Bill Cherrier
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House Committee on Agriculture
“A 2022 Review of the Farm Bill: Energy – Renewable Energy Opportunities in Rural America”
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Introduction

Chairman Scott, Ranking Member Thompson, and members of the Committee, thank you for the opportunity to testify. On behalf of Central Iowa Power Cooperative’s (CIPCO) member-owners, we sincerely appreciate the Committee’s interest in rural energy issues.

My name is Bill Cherrier, and I am the Executive Vice President and CEO of Central Iowa Power Cooperative (CIPCO). CIPCO is a generation and transmission (G&T) electric cooperative in its 76th year of operation providing electricity to member cooperative systems across Iowa. CIPCO serves nearly 300,000 rural and urban residents and more than 13,000 small and large commercial and industrial accounts.

Electric cooperatives return excess revenues to our consumer-members. CIPCO is dedicated to efficient, cost-effective operations and has returned more than \$120 million to our member distribution systems since its inception. This commitment to cost-effective measures has created steady, affordable electric rates at a time of great change in the energy industry.

As a not-for-profit electric provider, CIPCO is committed to judiciously maintaining and growing a system that supplies safe, reliable, and affordable electricity around the clock. I offer the Committee a few key points based on CIPCO’s experience and that of many other electric cooperatives:

- Rural Utilities Service (RUS) loans are critical to providing affordable, reliable power to rural America.
- The ongoing energy transition must be inclusive of all energy sources and incentives to support this transition should be accessible to all electric utilities.
- USDA is a key partner with not-for-profit electric cooperatives to serve our communities and provide benefits well beyond electrification.

Access to Capital Through USDA Rural Utilities Service

As urban areas began to electrify in the early 1900s, rural areas were being left behind. Rural community members recognized that the economics of the electric business were not working in their favor, so communities banded together to form electric cooperatives with the goal of powering rural homes, farms, and businesses. Using low-cost Rural Electrification Administration (REA) loans, cooperatives successfully electrified rural America and continue to provide reliable, affordable power to 42 million consumer-members in 48 states.

Rural Utilities Service (RUS)

Today, Rural Utilities Service (RUS) loans are as critical as they were in the early days of electric cooperatives. Cooperatives rely on RUS loans for basic investments in poles and wires, but also to invest in new technology to make their systems smarter and more efficient. As not-for-profit, consumer-driven entities, access to capital is one of our greatest challenges. Our obligation to provide our members safe, reliable, affordable electricity is only achievable if we have access to the resources to build necessary infrastructure. RUS loans meet this critical need.

The RUS Electric Loan Program relies on an annual appropriation from the agriculture appropriations bill. We are grateful for this Committee's support for robust funding and believe this strong support is recognition of the value of this financing to rural America and the reliability of electric cooperatives as borrowers. In fact, the RUS electric loan program generates revenue for the federal government - approximately \$214 million in FY 2021.

Loan Repricing

Roughly 500 electric co-ops hold approximately \$43 billion in RUS Electric Loans. Unlike a typical home mortgage, most of these RUS loans cannot be refinanced to take advantage of lower interest rates without penalty. As a result, many electric cooperatives still hold RUS debt with significantly higher interest rates than today's low rates, with few options for relief.

Only Congress can change this situation and there is bipartisan support for passage of the HR 2244, the Flexible Financing for Rural America Act, to allow RUS electric loans to be refinanced without penalty. This essential step will give co-ops the flexibility to best manage their financial circumstances while focusing on cooperatives' long-term stability and that of the communities they serve. Refinancing to today's rates could return billions in interest savings back to rural communities in the coming decades. An electric cooperative with typical RUS debt could save \$2 million per year in interest payments if it was to take advantage of current rates. Giving electric co-ops the flexibility to refinance existing RUS loans will enable them to meet the evolving needs of their consumer-members and continue their work as partners in the community's long-term economic future.

Loan Approval Backlog

Electric cooperatives have experienced a significant slowdown in the processing of work order approvals for recent projects. There are two primary reasons for these delays: 1) RUS lost experienced environmental staff to retirement in 2020 and a significant amount of institutional knowledge was lost, and 2) little work was done by electric cooperatives in 2020 due to COVID. Subsequently, RUS has faced a significant increase in the number of projects that need environmental reviews. Some electric cooperatives were under contractual deadlines for their projects that forced them to abandon RUS financing even though it was more costly to do so. RUS has made progress in training new staff and the backlog of approvals has been reduced. We are hopeful that RUS can continue to reduce this queue and expedite the loan approval process going forward.

Maintaining Reliability While Reducing Emissions

As a generation and transmission cooperative, CIPCO provides electricity to member distribution systems through owned assets and long-term power purchase agreements (PPAs) – contracts with third-party companies that own and operate the generation. CIPCO's diverse portfolio consists of wind, solar, hydro, landfill gas, natural gas, coal, and market purchases.

CIPCO's generation portfolio has evolved significantly with wind energy growing from 4.1% in 2010 to 29.9% in 2021 and coal dropping from 58.4% to 29.3% during that same time period. CIPCO is also investing in solar energy, including the 100 megawatt (MW) Wapello Solar LLC PPA and the 100 MW Coggon Solar LLC PPA scheduled for completion next year. Additionally, the 54 MW Independence Winds PPA came online in 2021. At this time, CIPCO sells the Renewable Energy Certificates (RECs) associated with wind and solar purchases to further offset wholesale costs for member systems.

As we look to the future, intermittent resources such as wind and solar must continue to be complemented and supported by always-available baseload resources like coal and natural gas. System reliability depends on the ability to blend intermittent sources like wind and solar with firm, flexible, and dispatchable electric capacity. For this reason, CIPCO recently invested \$85 million in our existing Summit Lake generation plant, adding efficient reciprocating-natural gas engines that serve peak electric demand. This investment complements our intermittent wind and solar resources while ensuring the baseload generation necessary to meet the 24/7 power needs of Iowans and businesses in CIPCO's service territory.

Parity for Financial Incentives

As electric cooperatives across the country diversify their generation portfolios, it is critical that policymakers work constructively with industry to achieve these objectives while maintaining the exceptional reliability and affordability that American families and businesses expect and deserve. The federal tax-credit structure prevents not-for-profit electric cooperatives like CIPCO from taking advantage of the tax benefit to directly build and own wind and solar generation assets. For cooperatives to reap any benefit from this transition, they must work with third parties that develop and own these assets. Direct-pay tax incentives would level the playing field for all electric providers, allowing co-op member systems and member-owners down the line to have equal access to a diverse power supply mix.

Rural Energy Savings Program (RESP) and Rural Energy for America Program (REAP)

Through additional partnerships with USDA, electric cooperatives are able to bring energy efficiency measures to their members, many of whom would not be able to afford these improvements. The Rural Energy Savings Program (RESP) offers low-cost financing to electric cooperatives for the purpose of implementing energy efficiency projects at their members' homes. We support continued growth of this program. However, we have found that the administrative burden at small electric cooperatives with limited staff can sometimes hinder opportunities to expand home energy efficiency programs. As a result, we also support a proposal to allow a small portion of a RESP loan to be used for administrative costs.

Additionally, the Rural Energy for America Program provides loans and grants to develop renewable energy systems and implement energy efficiency measures. Electric cooperatives have used REAP grants to partially finance community solar projects.

Consumer Benefits Beyond Electrification

Rural electric cooperatives were built by and belong to the communities they serve. Given this legacy of putting people before profits, they are much more than electric utilities in these communities. With USDA as a key partner, CIPCO and other electric cooperatives across the country are investing in their communities, including closing the digital divide, supporting business growth and expansion, and developing smarter community infrastructure.

Rural Economic Development Loan & Grant Program (REDL&G)

Through USDA's Rural Development Loan and Grant Program (REDL&G), CIPCO works with local businesses and other community groups to create jobs in rural areas. The program represents a mutually beneficial partnership between USDA, rural electric cooperatives, and local communities. In 2020, CIPCO secured \$8.7 million in 10 loans and grants to support the development and expansion of local Iowa businesses and services, including small businesses in the industrial, professional services, and healthcare fields.

Broadband and Smart Grid Connectivity

USDA's Broadband Programs are essential to the rural communities we serve. More than 200 electric cooperatives are engaged in providing or deploying broadband to their consumers and up to 200 more are exploring the feasibility of providing broadband service independently or in partnerships. Affordable and reliable high-speed internet is critical for the health and growth of rural communities, providing connections for healthcare, telework, education, economic development, and so much more. Beyond connecting our students, families and businesses, fiber optic capabilities increasingly support enhancements to the electric grid. Smart grid technologies, often financed through the RUS electric program, provide electric cooperatives the ability to increase energy efficiency, reduce consumer bills and labor costs, and improve the overall electric system performance. Federal investment will continue to be important in our efforts to close the digital divide. We urge Congress to provide the oversight needed to ensure that federally funded broadband projects are built to the highest quality standards and will stand the test of time.

Preparing for Electric Vehicle Growth

The market for electric vehicles is expanding rapidly and electric cooperatives across the country are working with the communities they serve to address electric vehicle charging needs. While electric cooperatives see opportunities for load growth, off-peak charging to flatten electric demand peaks, and increased engagement with their communities, there are also potential

hurdles that we must navigate to ensure a smooth transition that retains the affordability and reliability of electricity.

As detailed in a letter submitted by CIPCO's national trade organization, the National Rural Electric Cooperative Association (NRECA), to the Committee in advance of your recent electric vehicle hearing, planning for nationwide access to charging is complicated and charging solutions may look different in rural areas than urban centers. Consumer behavior, for example, will vary. Many urban drivers will commute to and from work and charge their vehicles at home. While commuters exist in rural areas, we will also see vehicles driving *through* our communities, including delivery and freight vehicles, drivers traveling long distances for work or vacation, and fleet warehouses. Co-ops will need to shape and manage the electric demand and supply for EVs around system needs and capacity, whether that includes upgrading grid infrastructure, securing additional capacity, or implementing price signals to balance the demand for electricity.

The federal government can help facilitate this transition by providing financial support and technical expertise for EV charging infrastructure, including grid infrastructure. Access to data projecting EV penetration, particularly in rural areas, to help plan grid investments to match the growth will also be essential.

Conclusion

CIPCO is dedicated to delivering 24/7 energy that is affordable and reliable to Iowa households, businesses, farms, and communities. Nearly 900 electric cooperatives across the country have similar community-focused missions for the areas that they serve. As this Committee considers reauthorizing the Farm Bill, we look forward to continuing to work with you toward our shared goal of improving life in rural America.

